BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Public Service Corporation for Authority To Adjust Electric and Natural Gas Rates – Test Year 2020	Docket No. 6690-UR-126

DIRECT TESTIMONY OF SCOTT LAUBER

I. Introduction

Q. Please state your name, business address and titles.

A. My name is Scott Lauber. My business address is 231 West Michigan Street, Milwaukee, Wisconsin 53203. I am Senior Executive Vice President, Chief Financial Officer, and Treasurer of WEC Energy Group ("WEC"). I am also a member of the Office of the Chair for WEC. WEC is the parent company of Wisconsin Public Service Corporation ("WPSC" or "Applicant").

Q. Please describe your educational background and business experience.

A. I have a Bachelors of Business Administration in Accounting from the University of Wisconsin−Whitewater. I am also a Certified Public Accountant. Prior to joining WEC, I worked as a staff auditor at Arthur Anderson.

I have held several roles in the 29 years since I joined WEC, most in the Finance and Accounting Department. Most recently, I served as Executive Vice President and Chief Financial Officer of WEC from April 2016 to February of this year. Since joining Wisconsin Energy Corporation in 1990, I have held positions of increasing responsibility, including Financial Manager – Distribution Operations and Manager – Corporate Accounting and Budgeting. In 2003, I was appointed Controller – Delivery Business. In

2011, I was appointed Assistant Treasurer. I was appointed Vice President and Treasurer for Wisconsin Energy Corporation and its utility subsidiaries in February 2013. I was appointed Vice President and Treasurer for WEC when the company was formed in June 2015 following the acquisition of Integrys Energy Group.

Q. What are your responsibilities in your current position?

A. I have overall responsibility for WEC's strategic and long-range financial planning functions, forecasting and managing the utility subsidiaries' revenue requirements, and overseeing the treasury, accounting, tax, insurance, and risk management functions.

Q. Have you testified in regulatory proceedings before?

A. Yes. I provided testimony before this Commission in Docket 9400-YO-100.

II. Purpose of testimony and overview

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my testimony is to provide an overview of WPSC's test year 2020 rate filing and to introduce the witnesses sponsoring direct testimony in this proceeding. This is the first rate increase WPSC has sought since 2016, and it is largely driven by recovery of previously-approved capital projects. As I will discuss below, by aggressively controlling costs and applying tax savings, we are able to mitigate the rate increases that would otherwise be needed to support our continued investment in capital projects to maintain system reliability and transition to a less carbon-intensive energy future.

Q. Who are the other witnesses presenting testimony in support of this application?

A. The other witnesses filing direct testimony in support of this application are:

1. Mr. Joe Zgonc, who presents WPSC's forecasted income statement and balance sheet along with the test year revenue requirement for each utility. Mr. Zgonc also

discusses WPSC's capital investments since its last rate case and requested changes to its capital structure.

2. Mr. Joel Gaughan, who supports the 2020 electric sales forecast for WPSC.

3. Ms. Kim Keller, who presents WPSC's fuel cost plan for 2020.

4. Mr. Jared Peccarelli, who supports the 2020 gas sales forecast for WPSC.

5. Ms. Ann Bulkley of Concentric Energy Advisors, who discusses WPSC's requested changes to return on equity and capital structure.

6. Mr. Todd Shipman of Concentric Energy Advisors, who explains how credit rating agencies assign credit ratings to investor-owned utilities, including the importance of regulatory risk in that analysis.

7. Mr. Richard Stasik, who presents the savings customers will realize as a result of retiring several generating assets and WPSC's proposed accounting treatment of those retired assets.

8. Mr. David Hughes, who discusses the effects on rates of the federal corporate tax reform bill passed in early 2018.

9. Mr. Jeffrey Jensen, who discusses the increase in capital cost of the ReACT air pollution control project completed at the Weston 3 unit, the reasons for the increased cost, and the steps WPSC took to control the project's costs.

10. Mr. Allan Mihm provides a brief overview of the ReACT technology and the current status of its installation at Weston 3.

11. Ms. Mary Wolter discusses rate recovery of the costs of the service agreement between Bluewater Natural Gas Storage LLC and WPSC that was previously approved by the Commission.

WPSC is also filing the analysis of real-time market pricing tariffs required by Order Point 18 of the Commission's decision in docket 6690-UR-125. On or before May 1, 2019, WPSC will file testimony explaining cost of service and rate design. Among the points of discussion for rate design will be a proposal for a pilot tariff related to electric vehicle charging, possibly adding a demand charge, and a proposal to eliminate certain load management tariffs.

III. Explanation of Applicant's Rate Request

Q. Please describe the changes WPSC seeks in its electric rates.

A. WPSC has kept its base rates flat since its last rate case review for test year 2016. At current rates, WPSC's electric operations will have a significant revenue deficiency in test year 2020. On a Wisconsin jurisdictional basis, WPSC's 2020 revenue requirement will be approximately $102 million (or 10.3%, including fuel) higher than its currently-authorized revenue requirement. A significant portion of this revenue requirement increase is caused by previously-approved capital projects aimed at improving system reliability and transitioning to cleaner generation. As I will discuss below, in the interest of mitigating the impact of this increase on our customers, we are proposing several measures to reduce the 2020 increase by approximately half. Approval of those proposed measures, along with some additional anticipated adjustments, allows us to target an effective rate increase of $49 million (or 4.9%) in both 2020 (including fuel) and 2021 (excluding fuel), as compared to current rates.

Q. Please describe the previously-approved capital projects you referenced in your last answer.

A. A good example of the previously approved capital projects that WPSC now seeks to

place into rate base and recover in its rates is the Forward Wind Farm. As Mr. Zgonc discusses in his testimony, in Docket 5-BS-226 the Commission approved WPSC's acquisition of a portion of the Forward Wind Farm and allowed WPSC to defer the cost of that acquisition until this proceeding. WPSC now seeks to place these amounts into rate base, which will add $19 million in the test year. Similarly, in Docket 6690-CE-198, the Commission approved WPSC's System Modernization and Reliability Project ("SMRP"). Adding the costs of the SMRP to rate base increases the test year revenue requirement by $26 million.

Q. Are there elements of WPSC's requested revenue requirement that have not previously been approved for recovery by the Commission?

A. Yes. WPSC seeks authorization to begin recovering in rates its costs incurred above the previously-approved capital cost of the ReACT pollution control system at the Weston 3 power plant. These costs were deferred in WPSC's last full rate case and that deferral was continued in Docket 6690-UR-125, to be addressed in this case. In the 2020 test year, adding these costs to rate base will increase WPSC's revenue requirement by $18 million. In addition, WPSC seeks to begin amortizing certain other, smaller deferrals, including the deferral relating to WPSC's Real Time Market Pricing tariff approved in Docket 6690-UR-125.

Q. What are some of the other reasons that WPSC's revenue requirement has increased over the past four years, while rates have been frozen?

A. I would like to highlight two of the principal trends over the past several years that have increased WPSC's revenue requirement. Mr. Zgonc describes all of the significant upward and downward pressures on our revenue requirement.

First, over the last four years, WPSC has invested $432 million of capital outside of the SMRP to update and maintain its electric generation and delivery systems. None of this investment is reflected in its current rates.

Second, over the same period WPSC's customers have used energy more efficiently, which has been a key reason demand for electricity in WPSC's service territory has fallen by 0.9% compared to the sales forecast on which its current rates are based. This reduced demand has led to an $18.5 million shortfall in WPSC's annual revenue requirement after factoring in the relevant fuel savings.

Q. What steps has WPSC taken to manage its costs since 2016?

A. As it has done in the past, WPSC continues to prudently manage its costs. We continue to challenge ourselves to find ways to provide more efficient and cost-effective service to our customers. For example:

- Since 2016, WPSC has reduced its annual O&M expense by $46 million, or 4.1%.
- Since 2015, WPSC's working capital requirements have decreased as coal plants have been retired, resulting in a decrease in revenue requirement of $114 million or 11%.
- The 2017 federal tax reform has decreased WPSC's annual tax expense by $28 million and created an additional $40 million in unprotected deferred income tax benefits that can be applied as a bill credit to reduce the effect of necessary rate increases.

Q. How is WPSC proposing to offset the effect of the rate increase in 2020?

A. As I mentioned above, WPSC's total revenue requirement deficiency for test year 2020 is

$102 million or 10.3%. In the interest of mitigating the impact of this increase on customers, we are seeking Commission approval for three bill credits in 2020. First, we are seeking permission to apply approximately $16 million of unprotected tax benefits. Second, we are seeking permission to apply over $21 million from WPSC's earnings sharing mechanism approved in Docket 6690-UR-125. Third, WPSC seeks to apply a $7 million fuel credit resulting from WPSC's 2018 fuel rules reconciliation, an approach that I understand the Commission has approved for WPSC and other utilities in prior rate review proceedings. In combination with some additional anticipated adjustments, these offsets against the revenue requirement will result in a targeted increase to our revenue requirement of $49 million (or 4.9%) in 2020, including fuel.

Q. What is driving WPSC's incremental increase in 2021?

A. Placing into rate base WPSC's ownership share of the Badger Hollow and Two Creeks solar facilities, which are currently before the Commission in Docket 5-BS-228, will increase WPSC's 2021 revenue requirement by approximately $28 million. To offset this increase, we are proposing to apply another $24 million in unprotected tax benefits as bill credits in 2021. However, because we cannot assume that the revenue sharing mechanism will result in refunds to customers in 2021 or that a refund will be due under the fuel rules, the targeted incremental revenue deficiency for that year would $49 million (or 4.9%), without fuel.

Q. WPSC currently has a revenue sharing mechanism in place as a result of the Commission's Order in 6690-UR-125. What is WPSC proposing with respect to that mechanism?

A. WPSC is proposing to maintain such a mechanism for an additional two years. WPSC

proposes to amend it slightly to mirror the approach the Commission approved for Wisconsin Power & Light in Docket 6680-UR-121. Thus, in particular, WPSC would retain all earnings between 0 and 25 basis points above its authorized rate of return on equity; return to customers 50 percent of the next 50 basis points of return above its authorized rate of return; and return 100 percent of any earnings beyond that point. The proposed revenue sharing mechanism is further discussed in Mr. Zgonc's testimony.

Q. Please describe WPSC's fuel cost filing for test year 2020.

A. In addition to the revenue requirements adjustments I just discussed, WPSC is filing a fuel cost plan, as required by the Commission's fuel rules, that indicates a decrease of approximately $28 million compared to the company's approved 2019 fuel costs. As always, these fuel cost estimates are subject to change during the course of this proceeding and final fuel costs will be fixed shortly after an order is issued in the case.

Q. Please explain the changes WPSC seeks in gas rates.

A. In test year 2020, Applicant projects a revenue deficiency of $16.2 million, or 5.4%. This revenue deficiency is driven by investments in reliability. As with its electric revenue deficiency, WPSC proposes to offset this increase by applying over $7 million in bill credits from unprotected tax benefits in 2020. With additional anticipated adjustments, these bill credits will target an effective revenue requirement increase of $7.1 million in 2020. In 2021, when the bill credits from the unprotected tax benefits roll off, this will result in a targeted increase of an additional $7.1 million in that year.

IV. Conclusion

Q Do you have anything further to say regarding Applicant's request in this proceeding?

A. Yes. Our highest priority is to continue providing safe and reliable service to our customers in an environmentally responsible way. We do not take rate increases lightly. Our commitment to keeping rates affordable for our customers is evidenced by the fact that we have managed to avoid rate increases for four full years despite constant investment in improving system reliability. We will continue to manage our business in a responsible, cost effective manner that retains the high level of service our customers expect.

Q. Does this conclude your direct testimony?

A. Yes.